Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of:	)	
	)	
The United States Telephone Association's	)	
Petition for Rulemaking to Amend Part 32	)	RM-8640
of the Commission's Rules to Eliminate	)	
Detailed Property Records for Certain	)	
Support Assets	)	

GTE's COMMENTS IN SUPPORT OF THE USTA PETITION

GTE Service Corporation and its affiliated domestic telephone operating companies

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July 5, 1995

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GTE's COMMENTS IN SUPPORT OF THE USTA PETITION

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE") hereby offer the following comments in support of a Petition for Rulemaking (the "*USTA Petition*") filed May 31, 1994 by the United States Telephone Association ("USTA") asking the Commission to initiate a proceeding to amend its Part 32 Rules to eliminate detailed property record requirements for the support assets in: Account 2115, Garage Work Equipment; Account 2116, Other Work Equipment; Account 2122, Furniture; Account 2123, Office Equipment; and the personal computers and peripheral equipment in Account 2124, General Purpose Computers (collectively, the "*Support Assets*"). In place of the current continuing property records ("CPR"), USTA proposes that carriers be permitted to use a Vintage Amortization Level ("VAL") property record system.[1]

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[1] On May 10, 1995 the Commission released Public Notice DA 95-1027 requesting comment on the *USTA Petition*.

INTRODUCTION

Sections 32.2000(e)(1) and 32.2000(e)(4) of the Commission's Rules set forth the current property record requirements. For each unit of property, a specific record must be established that contains the identity, year placed, location and original cost as well as any other information needed to "support regulatory, cost, tax, management and other specific accounting information needs and requirements." All transactions, including moves and changes during its life, must be reflected in plant account activity.

The *USTA Petition* proposes an alternative record system. Under this proposal, *Support Assets* would be grouped by vintage year for each account and amortized on a straight-line basis over the asset lives chosen from the FCC-approved range of lives. The assets and their associated reserves would be removed as a matter of course from the books when the groups are fully amortized. Existing net book values for *Support Assets* would be placed in a VAL group for each account and amortized over the remaining life of the group. Salvage proceeds would reduce the amortization expense of the *Support Assets* while the cost of removal of these assets would increase amortization expense.

DISCUSSION

1. In support of the *USTA Petition*, GTE urges the FCC to initiate a VAL rulemaking.

GTE supports the *USTA Petition* and urges the Commission to initiate a rulemaking to permit VAL accounting systems. This petition is both timely and important in light of the changing environment of regulation. USTA's proposal offers the

Commission an opportunity to eliminate a form of regulatory "baggage" that is no longer necessary in a competitive environment.

2. VAL property record systems are far more efficient than the current CPR systems.

Under the current system, fourteen percent of GTE's total CPR record keeping cost is incurred in accounting for only five percent of its fixed asset base. A significant reduction in these administrative costs could be realized by the implementation of VAL accounting as a replacement for the current CPR systems, which involve numerous accounting transactions over the life of the asset. Thus, under VAL, *Support Assets* would be accounted for on a group basis by location rather than by individual asset. This change would significantly reduce the aggregate number of transactions that have to be recorded.

At the same time, VAL offers the advantage of allowing assets to be placed, their investment recovered over a fixed time period, and the assets then retired without having to track each individual unit of property. This will not decrease the accuracy of the capital recovery process, and it will prove to be far more efficient.

3. Implementing VAL along with proper procedures will not diminish internal controls.

The overall processes that management puts in place for procuring, maintaining and securing *Support Assets* are the critical drivers that result in internal control and security. It is not the tag number, but the practices that are followed which provide asset security. GTE's experience has shown that those assets that do not currently use CPR tags raise no greater problems with internal control and security than those that currently use CPR tags. The implementation of VAL accounting systems along with proper processes and procedures will not diminish internal controls or asset safeguards.

Independent outside auditors can be relied on to provide an additional level of support in this area. Auditors must examine and report on the structure of a company's internal controls and whether they are functioning properly. These routine requirements are intended to assure shareholders, lenders, and management that these assets are properly safeguarded. So long as the auditors are satisfied that the company's assets are appropriately safeguarded, the FCC should be satisfied.

In a competitive world, businesses make decisions based on the level of risk perceived and the costs related to reducing that risk. LECs must be allowed to exercise sound business judgment just as their competitors do.

4. Implementation of VAL would be revenue neutral.

VAL can be implemented on a revenue neutral basis. The driver of whether there is revenue impact is the amortization periods to be established for the asset groups. Within FCC-approved ranges, lives can be selected so that there is no revenue impact. While being revenue neutral, VAL will, as discussed *supra*, reduce costs.

5. Required information on regulatory, CAM, and management issues will still be available.

Under VAL, sufficient detail would still be maintained in the property records to keep investment at a location level, which is all that is required for Cost Accounting Manuals ("CAMs") and regulatory studies. While VAL accounting will reduce the number of records in the data base and the number of transactions required, it will not lose the information needed for regulatory or other reporting requirements. The only change in this area is that the information will be made available in a more efficient manner.

6. The VAL Rulemaking should proceed along with CC Docket No. 95-06.

In CC Docket No. 95-60[2], the Commission, in response to a petition for rulemaking filed by USTA, proposes to raise the limit for expensing certain items of equipment from $500 to $750. GTE agrees with USTA that a more appropriate expense level would be $2000. Nonetheless, GTE recommends adoption of VAL because its implementation would reduce the administrative costs associated with the property above the expense limit. GTE believes that the instant proceeding should be carefully considered along with CC Docket No. 95-60 with the aim and purpose of adopting accounting rules that are more in keeping with a competitive environment.

Respectfully submitted,

GTE Service Corporation and its affiliated
domestic telephone operating companies

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[2] Revision to Amend Part 32, RM 8448, Notice of Proposed Rulemaking, FCC 95-182 (released May 31, 1995).

Certificate of Service

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "GTE's Comments in Support of the USTA Petition" have been mailed by first class United States mail, postage prepaid, on the 5th day of July, 1995 to the following parties:

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